

# EXHIBIT 48

**KELLY-MOORE PAINT COMPANY, INC.**

Quality in Performance

807 Commercial Street - P.O. Box 3019 - San Carlos, California 95060 - (415) 592-8357

X 110

May 27, 1998

Mr. B. J. Brooks  
114 Sansome Street, Suite 808  
San Francisco, CA 94104

Dear Jack,

Enclosed are documents that you requested so that you can begin working on the appraisal of The Company:

- 1.) Audited financial statements for 5 years. (Please note that Kelly-Moore Paint Company, Inc. and K-M Insurance Company is the portion being valued (Pages 22, 23 and 26 of audited statements). California Insurance Group and Montana operations (Ranch) will be spun off in a tax free reorganization. The Investment in Subsidiaries will be basically gone).
- 2.) 10 year Summary  
(Please note that the Investment in Subsidiary asset is included. The Montana Operations are not included in the lower calculations).
- 3.) Our Company Brochure
- 4.) A memo discussing history and operations.
- 5.) Various statistical information.

I look forward to working with you.

Sincerely,

*Steve*

Steve Ferrari  
Vice President-Finance

cc: Joseph P. Cristiano  
William E. Moore

**EXHIBIT**

78

Ferrari 3-26-08

MK003568

# EXHIBIT 49

JUN 18 '98 03:07PM KELLY MOORE CORP OFF

P.1/2



# Kelly-Moore Paint Company, Inc.

## FAX TRANSMITTAL COVER SHEET

DATE: 6-18-98TIME: 3 PMNumber of  
Pages: 2  
(including cover sheet)TO: Jack BrooksOf: Sansone Street AppraisersFAX #: 415-362-6492FROM: STEVE FERRARIOf: KELLY-MOORE PAINT COMPANY, INC.  
987 COMMERCIAL STREETAddress: SAN CARLOS, CA. 94070FAX #: 650-592-1215

### SPECIAL INSTRUCTIONS:

- ☐ Confidential  
☐ Urgent  
☐ Please Reply  
☐ For Your Information

### MESSAGE:

Attached is information  
for 1992 that was  
requested.

Also, Have we ever set up a time to  
meet and discuss. I recall that you wanted  
to do this, but I don't recall leaving  
Scheduled a time

If not received correctly, please call: 650-592-8337 Ext. 110

00-10-04 (B1)

EXHIBIT

79

Ferrari 3-26-08

MK003921

Misc Income / other Items  
Kelly Moore Paint

1997

1996

1995

1994

1993

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MK003922

P.22

JUN 18 '98 03:08PM KELLY MOORE CORP OFF

# EXHIBIT 50

JUL 27 '98 09:43AM KELLY MOORE PAINT

P.1



## Kelly-Moore Paint Company, Inc.

## FAX TRANSMITTAL COVER SHEET

DATE: 7-25-98TIME: 10:45 AMNumber of  
Pages: 4  
(including cover sheet)TO: Jack BrooksOf: Sangre St. Assoc.FAX #: 415-362-6492FROM: STEVE FERRARIOf: KELLY-MOORE PAINT COMPANY, INC.  
987 COMMERCIAL STREETAddress: SAN CARLOS, CA. 94070FAX #: 650-592-1215

00-1004 (91)

## SPECIAL INSTRUCTIONS:

- ☐ Confidential  
☐ Urgent  
☐ Please Reply  
☐ For Your Information

MESSAGE: \_\_\_\_\_

Jack,Please let me know  
what our compensation expense  
should be.If not received correctly, please call: 650-592-8337 Ext. 110

I used \$12 million on  
an internal debt payment of  
\$23.2 million. Isn't this low?

Steve

EXHIBIT

80Ferrari 3-26-08

MK003588

KELLY-MOORE PAINT COMPANY, INC. AND WHOLLY OWNED SUBSIDIARIES  
 EXCLUDING CALIFORNIA INSURANCE GROUP, MONTANA OPERATIONS & INVESTMENTS AND RELATED INCOME  
 (000 OMITTED)

PRO FORMA STATEMENTS AND 5 YEAR PROJECTIONS

| 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000P | 2001P | 2002P |
|------|------|------|------|------|------|------|-------|-------|-------|
|      |      |      |      |      |      |      |       |       |       |

REDACTED

MK003589



JUL 27 '98 09:44AM KELLY MOORE PAINT

P.2

- (1) Sales for 1998 are actual through May plus projections from June-Dec. Future years show a 5% increase per year.
- (2) EBCITD is Earnings before Compensation expense, Interest, Taxes and Depreciation. It is EBCIT plus Depreciation in (5) below.
- (3) EBCIT is Earnings before Compensation expense, Interest and Taxes. We believe 10% is a reasonable and achievable rate of return for future years. 1998 is not higher due to El Nino pressures and our conservative estimates for the remainder of 1998.
- (4) Taxes in projection are lower due to the fact that both contributions to the ESOP for internal debt principal is deductible for tax purposes. 40% rate is used.
- (5) Depreciation expense is expected to increase due to increasing level of capital expenditures each year to keep the plant and stores in good working order.
- (6) Typically we would expect working capital to increase due to (a) Inflation, (b) Sales increase and (c) an increase in approximately 2-3 stores per year that require inventory and receivables.
- (7) Capital expenditures are expected to be higher in 1998 due to building additions that were delayed from 1997 due to permit issues. A more normal, yet increasing level is expected in 1999 and future years due to the inflationary costs of plant and store renewal.
- (8) Cash transfers to Broken O Ranch in Montana ends in 1998 with its sale.
- (9) Bank Principal is a cash item. Amount paid to the ESOP is not a Cash flow item as amounts paid out as cash ESOP contributions are returned as internal loan payments. The accounting for the loan payments is compensation expense for the fair market value of the stock, Crediting the contra equity for the cost, and the difference is charged to capital.
- (10) Accounting regulations require internal debt between the ESOP and the Company to be fully deducted from equity or net assets which causes the strange looking negative net assets or equity in early years.

MK003590

JUL 27 '98 09:44AM KELLY MOORE PAINT

P.3

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Kelly-Moore Paint Company  
Levels of Detail and Payment Amounts

MK003591

# EXHIBIT 51



Kelly-Moore Paint Company, Inc.

FAX TRANSMITTAL COVER SHEET

DATE: 10-2-98

TIME: 2:30 PM

Number of  
Pages: 2  
(including cover sheet)

TO: Jack Brooks

Of: Sansone Street

FAX #: 415-362-6492

FROM: STEVE FERRARI

Of: KELLY-MOORE PAINT COMPANY, INC.

987 COMMERCIAL STREET

Address: SAN CARLOS, CA. 94070

FAX #: 650-592-1215

SPECIAL INSTRUCTIONS:

- ☐ Confidential  
☐ Urgent  
☐ Please Reply  
☐ For Your Information

MESSAGE: \_\_\_\_\_

If not received correctly, please call: 650-592-8337 Ext. 110

00-10-04 (B1)

Jade,

As you can see from the attached,  
we are ahead of 1997 through August  
even with the very slow first 5 months  
due to El Niño. Although all amounts can change, we project 1998 to be  
ahead of 1997 in Pre-tax and after-tax  
earnings by 6-10% (This is excluding interest and  
ESOP Comp. expenses) Steve Ferrari

EXHIBIT

81

Ferrari 3-26-08

MK003812

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KELLY-MOORE PAINT COMPANY, INC.

Exhibit B-1

Pro. Patent. Enclines

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MK003813

# EXHIBIT 52

EXHIBIT

52

Menke 3-21-08

KELLY - MOORE

gloss  
semi-gloss  
flat

cheaper  
costly

PRODUCT

- Architectural Paint - interior vs. exterior

little - oil vs. water-based

varies from location to location

little

- stains, varnishes - apparently not  
- what are other products -

Rustoleum  
dealer

solvents  
varnishes

Brushes, rollers, buckets, gloves,  
drop clothes, wallpaper, other

other things

equipment - marking tapes  
ladders

- whose products are there

- How does KMP compare to others?  
quality, price, variety, ease of  
use, etc., etc.

- what part of product is service?

- paint consultation

- delivery

- special terms?

- others?

- Is credit given routinely?

best  
B/P  
ratio

80% = ~~interior~~

Quality

Consistency

Few product complaints

Test batches

I - 900 ~

R & D Lab

Developing  
new paint

i.e., temperature  
independent

Titanium Dioxide

hide  
quality

in paint

Latex, water  
or  
oil

MK003534

## MARKET & CHANNELS

60% in  
Northern  
California

- How many stores? — 14 stores
- where are they — Alaska — Fairbanks, Anchorage
- what percentage of sales are paint? — 80%
- location — How are sights chosen?

long-term  
planning

to make  
money

- How critical are sites? — contractor
- Does anything go direct to contractors

market share  
about 50%

- Pricing — Do contractors get a break
- size of market? — architect —
- what are constraints — spec the product

#3 in Northwest  
varies from  
place to place

- what % of retail sales are manufactured by KHP?
- Any private label business? — No

## COMPETITION

Biggest  
competitor

- who are competitors?

- Independent paint stores
- large paint companies?
- mass marketers? — who supplies them?
- who? Home depot, Wal-Mart

Sears  
others

ICI  
Dulux

Fuller - O'Brien = dealer  
name

Monarch in  
Parker in

Southwest  
Northwest

- what is market share — location-by location
- How does competition take place?
- who markets name brands?
- Is market seasonal?

Williams  
sons

YES



PRODUCTION & OPERATIONS **CONFIDENTIAL**

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MK003536

BUSINESS POLICY

Market  
Revenue

- what was behind purchase in Seattle ? Paint Co
- what was behind purchase in Tempe ? Preservati
- To get manufacturing ? Universal
- To get outlets ? Pt. Co.
- what are acquisition plans ?
- what about more retailers ?
- ✓ ✓ ✓ production capacity

Sustainable market share

Growth will not come from acquisitions  
Growth will come from smart expansion  
Northern Nevada  
Sacramento  
Alaska  
Austin Texas

MK003537

INCOME STATEMENT

- - where are currency losses entered in to P & L?
- are SG & A expenses appropriately allocated to KMP v R-a-vix CIG? separate
- - how allocated? benchmarks
- are taxes appropriately allocated -
- rates are different. Precise

happstance - why is there the big gain at the insurance company in 1994 and 1995?

Investment  
147,879  
57,536

= 3.9 X

Point notes  
Accessories don't.

- what is "Investment and other income"? mostly investment.
- interest costs relate to capitalized leases as well as "hidden" notes payable.
- what discretionary expenses are included? Bonuses, retirement, other?
- any attempt to identify profit (loss) at the manufacturing level.

BALANCE SHEET

Strong - There is no funded debt.

Are there any gains/losses built into the investments on the B/S?

Subsidiaries are carried on a cost basis, investment  $\pm$  cash.

NO Are there any options, warrants, etc. outstanding?

YES who owns stores - are assets on a "market" basis?

Any recent appraisals of real estate? —  
— of manufacturing equipment? —

#39 San Carlos  
28 Hunt  
3 Tampa  
1 Seattle

i.e., for taxes, etc. insurance?

Is there any real estate owned that is not being used in the business?

— what is background and/or circumstances of recent sales of real estate?  
Lease Discount  
\$2400 - Texas  
\$600 - South S.F.

#18 1/2 in foreign <sup>demonstrated</sup> investments. - how much is KMP?  
— what is exposure?  
— will this continue?

MK003539

Plan - K/H will become a holding company -  
owning 1) Insurance Company  
2) Paint Company  
3) Promissory note from Moore  
for sale of Montana properties.

Investment in subs will disappear  
from books -

There have been no earnings  
resulting from subs - They are  
carried on a cost basis.

Two different forms of stock - K, I.

BALANCE SHEET - #2

NO Is any significant LIFO adjustment in the Montana inventory?

- what is the  
     1) investment level  
     2) excess cash  
     @ 5/31/98 or 6/30/98?

- should investments include KMI? NO  
     ✓ cash ✓ ✓

- How

INCOME STATEMENT

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GENERAL

- what are areas of exposure?
  - EPA considerations, if any
  - key man vulnerability
  - other personnel-related?

Not really.

No.

Good job is being done

80 men District manager

- Financial - none, except investments
  - Competition, market, products -
- Not really

- what is employee breakdown?
  - by: job classification
  - location

approximately

2,200

300 Union

1900 - stores & Admin.

Good employee relations



Salv

92

93

94

95

96

97

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**CONFIDENTIAL**

92 93 94 95 96 97

REDACTED

MK003545

5 #A - 155 **CONFIDENTIAL**

REDACTED

MK003546

**CONFIDENTIAL**

1992

1993

1994

1995

1996

1997

REDACTED

MK003547

PRO FORMA EARNINGS

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MK003548

INVENTORY

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MK003549

# EXHIBIT 53

IRELAND ASSOCIATES  
P.O. Box 487  
KENTFIELD, CALIFORNIA 94914  
(415) 464-0424

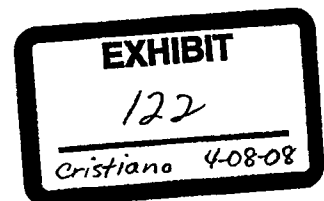
**Minority Interest Fair Market Valuation  
of the Series P, Class B Shares of Common Stock of**

**K-M INDUSTRIES HOLDING CO., INC.**

**For Employee Stock Ownership Plan Purposes  
As of December 31, 2000**

**Prepared by Robert M. Ireland, ASA  
March 27, 2001**

**COPY**



KMH 001041



IRELAND ASSOCIATES  
P.O. Box 487  
KENTFIELD, CALIFORNIA 94914  
(415) 464-0424

March 27, 2001

Mr. William E. Moore, Trustee  
Kelly-Moore Paint Company, Inc.  
Employee Stock Ownership Plan  
987 Commercial Street  
P.O. Box 3016  
San Carlos, California 94070

Dear Mr. Moore:

As you have requested, Ireland Associates has prepared an appraisal of the Series P common stock of K-M Industries Holding Co. Inc. as of December 31, 2000. The purpose of this appraisal is to determine the minority interest fair market value of the K-M Industries Holding Co. Inc. Series P, Class "B" common stock for annual Employee Stock Ownership Plan (ESOP) reporting purposes and for use in connection with common stock transactions involving the K-M Industries Holding Co., Inc. ESOP.

Background:

On September 30, 1998, the original Kelly-Moore Paint Company, Inc. changed its name from Kelly-Moore Paint Company, Inc. to K-M Industries Holding Co. Inc. (the "Parent Company"). A new subsidiary was then formed named Kelly-Moore Paint Company, Inc. (the "Company"). All of the assets and liabilities of the Parent Company except for the stock in California Capital Insurance Company were then transferred from the Parent Company to the Company in exchange for 15,000 shares of the Company's stock.

The Company then adopted an internally leveraged Employee Stock Ownership Plan (ESOP) for employees not subject to collective bargaining agreements who have completed 1,000 hours of service in a plan year. The primary purpose of the ESOP is to enable participating employees to share in the growth and prosperity of the Company and to provide participants with the opportunity to accumulate capital for their retirement needs. The Company agreed to make annual contributions to the ESOP equal to the ESOP's debt service less dividends received by the ESOP. All dividends received by the ESOP will be used to pay debt service.

KMH 001042

Kelly-Moore Paint Company, Inc.  
March 27, 2001  
Page 2

As part of the ESOP transaction, 80,000,000 shares of K-M Industries Holding Co. Inc. Series P, Class "A" and Class "B" common stock were created to track the common stock of Kelly-Moore Paint Company, Inc. exclusively. The Series P, Class "A" and Class "B" tracking common stock are identical except for two features. The Series P, Class "B" common stock has certain extraordinary dividend rights (for payment of dividends to reduce ESOP debt) not available to the Series P, Class "A" common stock. The other differentiating feature to these securities is that the Series P, Class "A" common stock is convertible into Series P, Class "B" common stock at any time. The Series P, Class "A" common stock was designated to be held by the William E. and Desiree B. Moore 1990 Revocable Trust and the Series P, Class "B" common stock was designated to be held by the ESOP.

On October 13, 1998 the ESOP purchased 33,745,455 shares of the Series P common stock representing 42.18% of the total Series P common stock for \$232,000,000 from the William E. and Desiree B. Moore 1990 Revocable Trust and were designated Series P, Class "B" common stock. To allow the ESOP to complete this transaction, the Company loaned \$232,000,000 to the ESOP in exchange for a 6-1/2% promissory note. The loan is to be repaid in 57 quarterly payments including principal and interest. The first payment on December 31, 1998 was \$23,236,648.46. The remaining balance is to be paid in quarterly installments of principal and interest in the amount of \$5,809,162.11 per quarter beginning March 31, 1999 through December 31, 2012.

The ESOP pledged Parent Company stock as collateral for its debt. As the debt is repaid, shares are released from collateral and allocated to active employees, based on the proportion of debt service paid in the year in accordance with a pledge agreement.

If an ESOP beneficiary has the right to a distribution, within 60 days, after the stock is distributed, the beneficiary has a put option giving him or her the right to have the Company or the ESOP purchase the stock at fair market value. No stock is subject to repurchase as long as the ESOP has debt outstanding. There are currently no shares allocated subject to repurchase.

As of December 31, 2000, the Kelly-Moore ESOP owned 33,745,455 shares of K-M Industries Holding Co. Inc. Series P, Class "B" common stock representing 42.18% of the issued and outstanding stock of K-M Industries Holding Co. Inc.

Kelly-Moore Paint Company, Inc. is engaged in the manufacture of paint and the retail sale of paint and paint-related products in California, the Southwest and the

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Kelly-Moore Paint Company, Inc.  
March 27, 2001  
Page 3

**REDACTED**

KMH 001044

Kelly-Moore Paint Company, Inc.  
March 27, 2001  
Page 4

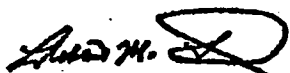
- the statements of fact contained in this report are true and correct.
- the reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, unbiased professional analyses, opinions and conclusion unless otherwise stated.
- I have no present or prospective financial interest in Kelly-Moore Paint Company, Inc. and I have no personal interest or bias with respect to the parties involved.
- my compensation is not contingent on the value determined herein, or any action or event resulting from the analyses, opinions, or conclusions in, or the use of, this report.
- my analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice adopted by the American Society of Appraisers and the Principles of Appraisal Practice and Code of Ethics of the American Society of Appraisers.
- no one has provided significant professional assistance to me in the preparation of this report.

General economic conditions and the dynamics of the industries served by the Company can change over time and as a consequence invalidate the conclusions reached in this valuation. Federal regulations require that the Company's common stock be reevaluated at least annually for ESOP purposes.

We appreciate the opportunity to work with you and the rest of the management of Kelly-Moore Paint Company, Inc. in the preparation of this valuation report. We look forward to working with you in the future.

Very truly yours,

IRELAND ASSOCIATES



Robert M. Ireland, ASA  
Principal

RMI:ew  
enclosure

KMH 001045

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**KELLY-MOORE PAINT COMPANY, INC.**

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KMH 001048

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KMH 001049



certain outside sources with regard to the paint and coatings industry and the related construction industry and the Company's relative position within the paint and coatings industry and the related construction industry in its market area.

It is important to point out that this valuation is specifically intended to establish a per-share fair market value for a limited number of shares to be issued to or bought, sold or held by the Company's ESOP. Our fair market value appraisal of the common stock of Kelly-Moore Paint Company, Inc. has been performed on a minority interest basis. This report does not address the valuation of the Company on an entity (control) basis. The value of the Company as a business entity (100% of the Company), with the attendant rights to control the direction and growth of the Company, to influence or control compensation and dividends, to change management, to acquire other companies and/or business operations, or to sell or merge the Company, may be greater than the total value implied by this valuation.

Neither the appraiser nor Ireland Associates has any present or contemplated future financial interest in Kelly-Moore Paint Company, Inc. and the fee for this valuation is not contingent upon the values determined. The appraiser's Uniform Standards of Professional Appraisal Practice certification and the qualifications of Ireland Associates to undertake this valuation are set forth in Appendix II.

## II. THE COMPANY

### History

Kelly-Moore Paint Company, Inc. (Kelly-Moore or the "Company") was founded in 1946 in San Carlos, California as a partnership between Mr. William Kelley and Mr. William Moore to manufacture paint to supply contractors and builders in the booming post-World War II housing market in Northern California. Mr. Moore, 29, who had just completed his military service, convinced Mr. Kelly, 68, a recently retired paint company chemist, that there was a need for a small paint company selling primarily to contractors. Mr. Moore believed the larger national paint brands overlooked the professional contractor market in their eagerness to promote paint products to consumers and homeowners.

Kelly-Moore Paint Company, Inc. was incorporated in 1952 when Mr. Kelly retired and sold his interest in the partnership to Mr. Moore.

By 1956, the Company had stores in San Carlos as well as in San Jose, Stockton and Sacramento. Annual sales were approaching one million dollars and there was a need for more manufacturing capacity. The Company acquired a 14,000 square foot building that year on two and a half acres in San Carlos which became the nucleus of Kelly-Moore's Northern California manufacturing operation. Today, the San Carlos facility stands on 16.7 acres and is considered to be among the most up-to-date paint manufacturing plants in the industry. This facility provides the product for the Company's California retail outlets as well as for other locations in the west.

In 1962, Kelly-Moore began manufacturing paint in the Dallas, Texas area, and in 1965 it acquired a 21 acre building site in Hurst, Texas, a suburb of the Dallas-Ft. Worth metroplex area, to support the Company's retail branch locations in Arizona, Arkansas, Colorado, Oklahoma and Texas.

Throughout the years, Kelly-Moore Paint Company continued its steady growth, opening up additional retail branch locations in Alaska, Oregon, Washington and Nevada as well as in California, Texas, Oklahoma, Arizona, Arkansas and Colorado, where today the Company has more than 150 outlets serving professional painters and contractors as well as the retail public. Kelly-Moore paint stores are one-stop, full-service paint product centers stocking paint, painting equipment and supplies for the professional painter and the do-it-yourselfer alike.

In 1985, Kelly-Moore discontinued the manufacturing of lacquers and varnishes. The Company manufactures only water-based paint in San Carlos. Water-based paints as well as small amounts of oil-based paints are manufactured in Hurst, Texas; Seattle, Washington and Tempe, Arizona.

To diversify its business operations, Kelly-Moore Paint Company purchased the California Mutual Insurance Company (Cal Mutual) in 1986. Cal Mutual, known as The California Insurance Group, specializes in writing small commercial and personal automobile and homeowner policies. The California Insurance Group, headquartered in Monterey, California, maintains a number of sales and claims offices throughout the state. The California Insurance Group and Kelly-Moore became wholly owned subsidiaries of K-M Industries (which is discussed below).

In 1988, the Kelly-Moore Paint Company acquired The Broken O Ranch, a cattle ranch in Augusta, Montana which maintained a herd of cattle and buffalo for sale and breeding. This property, which consisted of 135,000 acres (deeded and leased), also grew revenue-producing crops of barley, canola, wheat, alfalfa and hay and operated as a separate division of Kelly-Moore Paint Company until 1998 when it was sold.

In 1988, Kelly-Moore Paint Company established the K-M Insurance Company, Inc. ("KMIC") as a wholly owned subsidiary and a captive insurance provider of automobile, general liability and workers' compensation coverage for Kelly-Moore.

In 1994, Kelly-Moore Paint Company purchased Seattle-based Preservative Paint Co., which had a manufacturing plant in Seattle and company-owned paint stores in Washington, Oregon and Alaska.

In 1995, Kelly-Moore Paint Company acquired the assets of Universal Paint Corporation in Tempe, Arizona. Kelly-Moore Paint Company operates the former Universal Paint Corporation paint manufacturing plant and a number of stores in Arizona and one in California as K-M Universal Paint Company, Inc. until converting them to Kelly-Moore Paint Stores.

In May 1996, Kelly-Moore Paint Company purchased the assets of Island Equipment Company, Inc. in Tamuning, Guam, operating one paint store under the K-M Universal Paint Company, Inc. name.

On September 30, 1998, Kelly-Moore Paint Company changed its name to K-M Industries Holding Co., Inc. (which is referred to herein as "K-M Industries"). A new California company was incorporated and named Kelly-Moore Paint Company, Inc. (which is referred to herein as "Kelly-Moore"). All of the business assets and liabilities of K-M Industries except for the shares representing the equity investment in The California Insurance Group were transferred from K-M Industries to Kelly-Moore in exchange for the issuance of the entire 15,000 authorized shares of Kelly-Moore. Kelly-Moore is a wholly owned subsidiary of K-M Industries.

In May 2000, Kelly-Moore acquired the assets of the Ponderosa Paint Company for \$15.5 million in cash. The Ponderosa Paint Company operated in the Boise, Idaho area and had annual sales of \$19 million.

Since the Series P, Class A and Class B shares of common stock of K-M Industries reflect the value of Kelly-Moore, we performed a valuation on Kelly-Moore to value the Series P, Class B shares of common stock of K-M Industries held by the ESOP.

#### General Business Description

Kelly-Moore Paint Company, Inc. is primarily engaged in the design, manufacturing and retail sale of architectural paint and paint-related products in ten western and southwestern states and the island of Guam. Through its wholly owned subsidiary, K-M Insurance Company, Inc. ("KMIC"), a captive insurance company, KMIC provides automobile, general liability and workers' compensation coverage for Kelly-Moore Paint Company, Inc.

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**REDACTED**

KMH 001053

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REDACTED

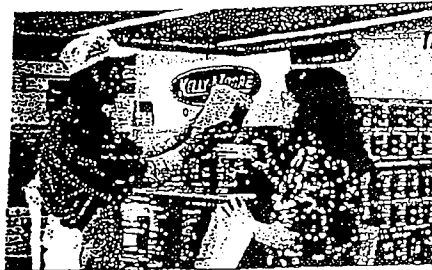
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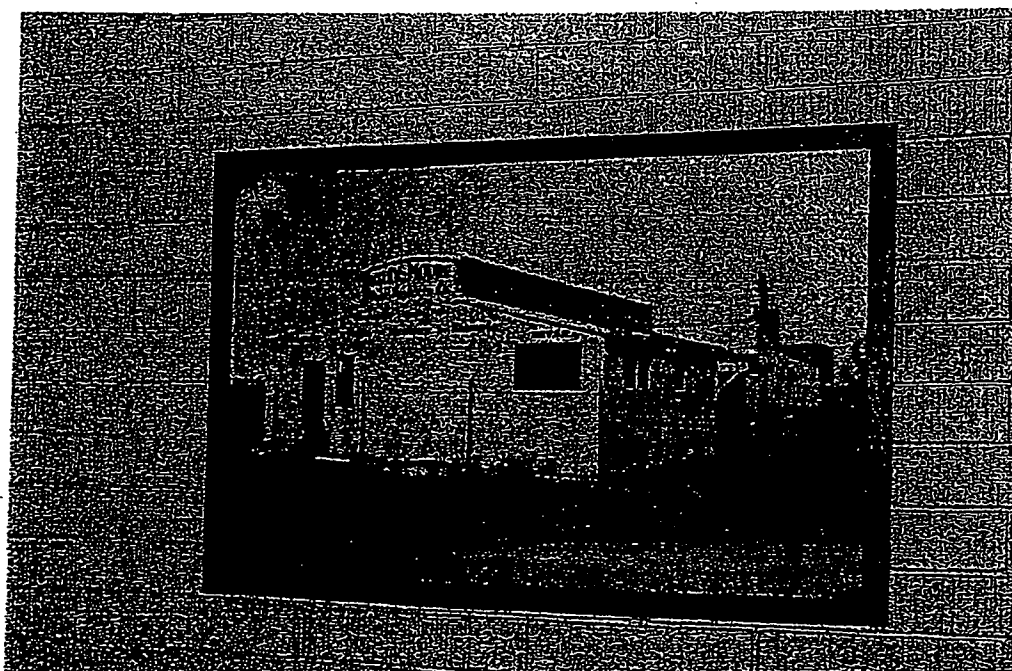
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KMH 001055

**KELLY-MOORE**  
PAINT CO.®

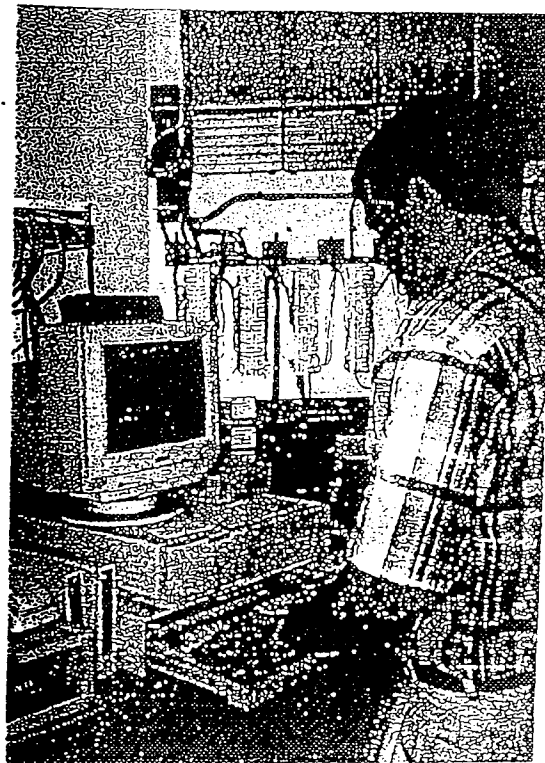
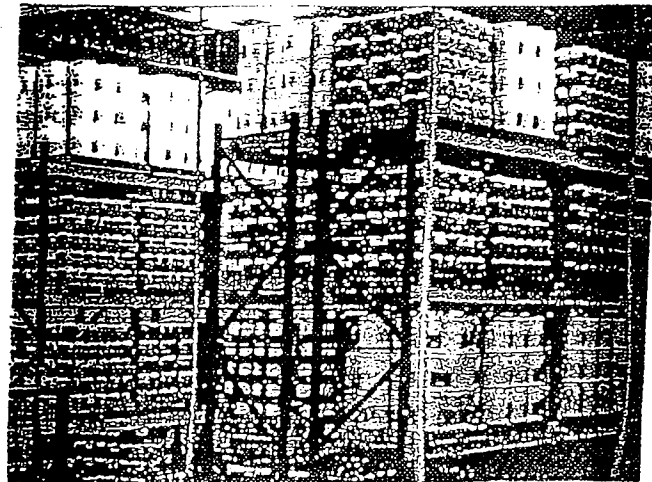
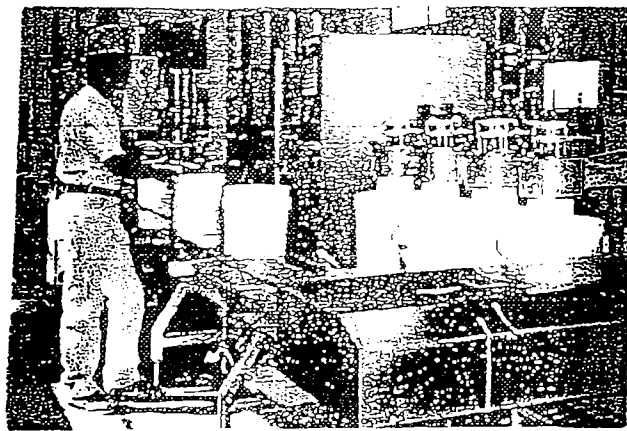
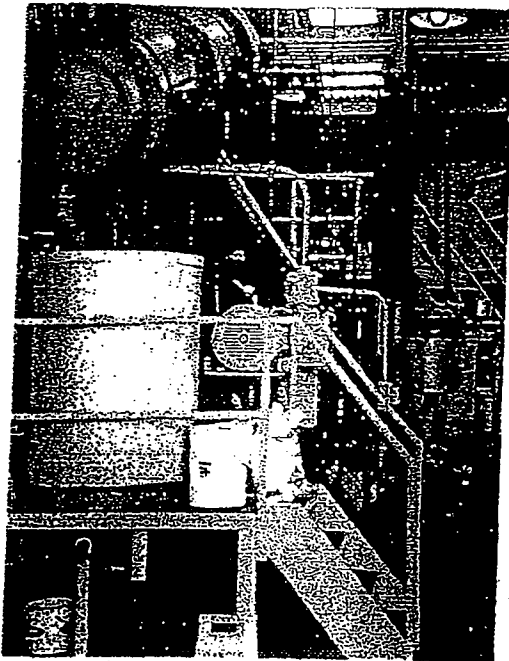


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### Brief Industry Comments

The characteristics of the overall market for architectural paint in the U.S. is beyond the purview of these remarks. It is appropriate to note that the paint industry is essentially mature and growing with the general growth of the U.S. economy. The overall market for paint is divided approximately 50/50 between industrial finishes and trade sales, or architectural coatings. The "home decor" market is estimated to be in excess of \$10 billion.

The Company competes only in the architectural coatings market and has targeted professional painting contractors (as contrasted with the "do-it-yourself" market) as its primary market. Approximately 80% of Kelly-Moore Paint Company, Inc.'s annual sales goes to painting contractors. Architectural paints reach the user through a wide variety of marketing channels, including the mass marketers (e.g., Sears, Lowes, Home Depot), independent and manufacturer-owned or affiliated paint stores, hardware stores, building materials stores and others. Purchases of paint are based upon brand name recognition, the reputation of the particular selling organization, locational convenience, quality, personal relationships, service and, of course, price. Because the painting contractor's costs are primarily labor, price per gallon is somewhat less important to the Company's customers than it is to the typical "do-it-yourself" customer.

This market is dominated by Sherwin-Williams and ICI Paints, the U.S. subsidiary of Imperial Chemical Industries. PPG and Valspar are also significant participants. These companies have been actively acquiring other paint companies in recent years. Although the number continues to decrease, there are hundreds of smaller independent paint manufacturers in the U.S.

It is generally accepted that most trade sale paints are sold for maintenance and repair. It is generally accepted that the new construction market has a perceivable effect resulting from moves when new houses are built and sold. The new housing market has been relatively strong in recent years. The maintenance and repair market is seasonal.

### Economic Review

The following discussion and analysis of the national economy for the fourth quarter of 2000 is based upon a review by Mercer Capital of current economic statistics, articles in the financial press, reviews found in current business periodicals and information posted on numerous Internet sites. The purpose of the review is to provide a representative "consensus" review of the condition of the national economy and its general outlook at the end of the fourth quarter of 2000.

General Economic Overview. According to preliminary estimates released by the Department of Commerce's Bureau of Economic Analysis, Real Gross Domestic Product ("GDP"), the output of goods and services produced by labor and property located in the United States, increased at an annualized rate of 1.4% during the fourth quarter of 2000. Growth in GDP is believed to have slowed due to successive actions by the Federal Reserve to raise interest rates during the last several quarters. Growth in GDP for the third quarter of 2000 was revised to 2.2%, lower than the preliminary estimated annualized growth rate of 2.7%. The growth in real GDP in the fourth quarter reflected an increase in domestic demand that was partly offset by a decrease in foreign demand. The economy has cooled significantly from its impressive performance during the prior several years.

The Federal Reserve (the "Fed") left the federal funds target rate unchanged (6.5%) at all three of its fourth quarter meetings. The Fed is closely monitoring economic growth, productivity measures, and labor data citing numerous indicators that support a continuing risk of inflation. However, modest economic growth has largely mitigated inflationary pressures. Many economists believe that growth will continue to slow without monetary and fiscal stimulus. There are elevating concerns that the economy is tracking toward a possible recession. In the days following the end of the fourth quarter of 2000, Federal Reserve Chairman Alan Greenspan noted a concern that economic growth appeared to have slowed significantly toward the end of the year and that immediate monetary action was needed.

The Conference Board reported that the Composite Index of Leading Economic Indicators ("LEI"), the government's primary forecasting gauge, declined 0.6% in December to 108.3 after consecutive decreases of 0.4% in both October and November. The index attempts to gauge economic activity six to nine months in advance. Multiple consecutive moves in the same direction are said to be indicative of the general direction of the economy. In December, seven of the ten leading economic indicators declined. The negative contributors to the leading index, from largest to smallest, were average weekly manufacturing hours, index of consumer expectations, interest rate spread, stock prices, average weekly initial claims for unemployment insurance, manufacturers' new orders for non-defense capital goods and materials, and building permits. In December the Coincident Index gained 0.1% while the Lagging Index fell 0.1%. In its data release the Conference Board indicated that "taken together, the three composite indexes and their components show an increasing risk of a downturn in economic activity."

The Dow Jones Industrial Average finished the quarter 1.3% higher than its third quarter 2000 close but finished the year 6.2% below its 1999 year-end close. The S&P declined 8.1% for the quarter and 10.1% for the year. The NASDAQ declined 32.7% during the fourth quarter of 2000, ending the year 39.3% below 1999 year-end levels. Treasury bond yields consistently declined during each month of the fourth quarter. High-grade corporate bonds displayed a similar pattern of declining yields during the fourth quarter.

**Consumer Spending and Inflation.** According to the Bureau of Labor Statistics the Consumer Price Index ("CPI") decreased 0.1% to 174.0 in December (CPI - all urban consumers, 1982-1984 = 100, before seasonal adjustment). The seasonally adjusted annual rate of inflation for the fourth quarter of 2000 was 2.1%, compared to 6.1%, 2.6%, and 2.8%, respectively, for the first through third quarters of 2000. In the year 2000 the CPI-U rose 3.4%, the largest annual advance since a 6.1% rise in 1990. Each of the three special index groups - food, energy, and all items less food and energy - contributed to the acceleration in 2000. The energy index, which had turned up sharply in 1999 after declining in 1998, increased 14.2% in 2000. Petroleum-based energy costs advanced sharply by 15.7% during 2000, about half the percentage increase in 1999. The inflation rate for 1999 was 2.7% versus a 1.6% rate for 1998, the smallest annual increase since a 1.1% rise in 1986.

The Producer Price Index ("PPI"), which is generally recognized as predictive of near-term consumer inflation pressure, showed no change in December (PPI for finished goods, seasonally adjusted) following an increase of 0.1% in November and a 0.4% increase in October. During the fourth quarter of 2000 the PPI increased at a seasonally adjusted annual rate of 2.0% resulting in an annual rate of 3.6%. This represents the largest calendar year increase since 1990 when

the index rose 5.7%. Excluding food and energy, the core PPI rose 0.8% during the fourth quarter. A significant portion of the increases in PPI for the year 2000 are related to energy prices which rose 4.6% (annualized) and 17.1%, respectively, for the fourth quarter and for the year. Core PPI rose at a 1.2% seasonally adjusted rate during 2000.

According to the Census Bureau of the Commerce Department, the percent change in retail sales for October to November 2000 was revised from -0.4% to -0.5%. The advance estimate for December retail sales (adjusted for seasonal, holiday and trading-day differences) reflected an increase of 0.1% from November 2000 and of 3.4% from December 1999 sales. Personal consumption spending represents approximately two-thirds of total economic activity and is generally a primary component of overall economic growth. Real personal consumption spending increased 2.9% in the fourth quarter of 2000, following an increase of 4.5% in the third quarter. Durable goods purchases decreased 3.4% during the fourth quarter in contrast to an increase of 7.6% in the prior quarter.

*The Financial Markets.* The Dow Jones Industrial Average ("DJIA" or the "Dow") closed the fourth quarter at 10788, up 1.3% for the quarter, but 6.2% below the 1999 year-end close. The Standard & Poor's 500 ("S&P 500") index decreased 8.1% during the quarter to close at 1320, 10.1% below year-end 1999. The NASDAQ Composite Index fell 32.7% during the quarter to close at 2471. The NASDAQ Composite Index was down 39.3% for the year. The broad market Wilshire 5000 index closed at 12176, down 10.6% for the quarter and reflecting a loss of 11.8% for the year. A weakening outlook for earnings growth and profits was behind the lackluster performance of many large, mature issues. A plunge in high technology issues was behind the significant decline in the NASDAQ. Consensus outlooks for the stock markets are for continuing weakness as economic growth and consumer spending is expected to diminish further before improving in the second half of 2001.

The monthly average yields to maturity on the 30-year Treasury bond during the fourth quarter of 2000 were 5.80%, 5.78%, and 5.49%, respectively, for October, November, and December. Bond prices are negatively correlated with their respective yields, which can shift abruptly due to investor reactions to major variances in reported economic data versus market expectations (i.e., expected inflation, growth, monetary policy and other Fed action, etc.). Yields declined modestly throughout the quarter, as the Fed remained idle on short-term rates and the market anticipated near-term Fed action to loosen monetary policy.

*Interest Rates.* The Federal Reserve's Open Markets Committee ("FOMC") remained idle on interest rates at all three of its fourth quarter 2000 meetings. The Fed last raised rates at its May 16th meeting. The Committee maintained a target Fed Funds rate of 6.5% and stated that while some inflation risks persist, they are diminished by the more moderate pace of economic activity and by the absence of any indication that longer-term inflation expectations have increased. Given a recent softening of economic growth and downturns in the financial markets, many analysts and economists foresee the Fed potentially reversing its present bias toward that of lowering short-term interest rates in the first quarter of 2001. The Fed increased rates six times during the period from June 1999 to May 2000 (at six of its eight FOMC meetings). Many economists and financial market analysts attribute the economic slowing in late 2000 to the delayed and cumulative consequence of the Fed's tight monetary policy. There is a consensus that the Fed will move to cut interest rates at its January 2001 FOMC meeting.



**Housing Starts and Building Permits.** Home building is generally representative of overall economic activity because new home construction stimulates a broad range of industrial, commercial, and consumer spending and investment. According to the U.S. Commerce Department's Bureau of the Census, new privately owned housing starts were at a seasonally adjusted annualized rate of 1.575 million units in December, virtually unchanged from a revised November estimate of 1.570 million units, but 11.0% below the December 1999 rate. Single family housing starts in December were 1.313 million, 6.0% above the November level of 1.239 million units. An estimated 1.593 privately owned housing units were started in 2000. This is 4% below the 1999 figure of 1.667.

The seasonally adjusted annual rate of new housing building permits (considered the best indicator of future housing starts) was 1.493 million units in December, 7.0% below the revised November rate of 1.598, and 11.0% below the December 1999 measure of 1.683 million.

**Unemployment.** According to the Labor Department's Bureau of Labor Statistics, unemployment levels during the fourth quarter of 2000 remained historically low. After holding steady at 3.9% in October, the unemployment rate was 4.0% for November and December. December marked the forty-second consecutive month that the unemployment rate was below 5%. The unemployment rate for all of 2000 was approximately 4.0%, down slightly from 4.2% in 1999. Tight labor markets remain a theme of Fed concerns regarding inflation. Productivity during the year 2000 advanced 4.3% in both the business and nonfarm business sectors. These measures represent the largest increases since 1971 for business and 1983 for nonfarm business. Productivity measures provide a counterbalance to tight labor markets and inflation because demands for increased worker pay are more easily met when output rises.

**Summary and Outlook.** Economic growth, as measured by growth in GDP, decelerated to 1.4% in the fourth quarter of 2000, after registering a revised 2.2% annualized rate in the third quarter of 2000. Annual growth in GDP for 2000 was 5.0%. In 1999, GDP growth was 4.2%. During the fourth quarter of 2000, the Dow increased 1.3%, the S&P 500 decreased 8.1%, and the NASDAQ sank 32.7%. All major stock market indices were down for the year with the NASDAQ falling 39.3% during 2000. Bond yields moderated during most of the fourth quarter ending mostly lower than third quarter levels. Fourth quarter inflation was a seasonally adjusted annualized rate of 2.1%, representing a decline from the third quarter 2000 rate of 2.8%. The inflation rate for 2000 was 3.4%, the highest level since 1990. In 1999, the inflation rate was 2.7%. The inflation rate is expected to continue at current levels for the next several months. The Federal Reserve's Open Markets Committee remained idle at its three meetings during the fourth quarter. The outlook for economic growth is for a continuation of modest growth. However, fears are rising that the economy maybe showing signs of a possible recession. Late fourth quarter growth revealed the economy to have landed hard instead of the desired "soft landing" which the Fed attempted to engineer.

The November presidential election was initially too close to call with the Florida electoral votes representing the margin of victory. After significant legal debate, Florida's election results were certified, and George W. Bush was victorious in the national election. Included in the legislative agenda of the new administration are tax reform and/or relief. With a softening economic picture, many politicians and market analysts believe that fiscal restraint and tax reductions are needed to augment the Fed's monetary policy to secure the long-term stability and growth of the economy.

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KELLY-MOORE PAINT COMPANY, INC.

Exhibit A

Comparative Income Statements, 1997-2000  
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KELLY-MOORE PAINT COMPANY, INC.

Exhibit B

Comparative Balance Sheets, as of December 31, 1997-2000  
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KELLY-MOORE PAINT COMPANY, INC.

Exhibit C

Selected Ratio Analysis  
1997-2000

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**Guideline Public Companies—Publicly Traded; and Valuation Based Upon Multiples of Estimated Sustainable Pretax Earnings Capacity and Projected 2001 Pretax Earnings Capacity and Guideline Public Company Multiples of December 31, 2000 Book Value as Adjusted for ESOP Debt, 2000 Net Revenues and Estimated Sustainable Cash Flow**

Revenue Ruling 59-60 and the Department of Labor's withdrawn proposed regulations on "Adequate Consideration" suggest that the appraiser consider the market prices of securities of publicly traded companies that are comparable to the company being appraised. The market prices of publicly traded comparable companies often give the appraiser a number of benchmarks or value relationships which may assist him in determining the fair market value of closely held securities that are not publicly traded. By using public market comparables, the appraiser can make informed judgments as to the relative value relationships between various companies.

Ireland Associates has made an extensive search for comparable publicly traded companies which can be deemed similar to Kelly-Moore Paint Company, Inc. In order to derive a range of appropriate market-based valuation benchmarks, Ireland Associates initially reviewed financial data on a number of publicly traded companies. Our search included the use of such standard reference materials as the *Directory of Companies Required to File Annual Reports with the Securities and Exchange Commission*, *Media General IndustriScope*, *Standard & Poor's Stock Guide*, *Stock Reports*, *Corporate Records* and *Industry Surveys*, and *Moody's Industry Review*. This research yielded five companies which were considered to be adequate publicly traded comparables for our analysis. These five companies included: H.B. Fuller, PPG Industries, RPM, Inc., Sherwin Williams and Valspar.

Seldom are two companies identical. If restrictive criteria were used for the selection of similar companies, it would be nearly impossible to find a comparable. This would render the market comparative approach to valuation virtually meaningless. Standards of comparability have been addressed in several recent court cases involving valuation issues.\* In the case at hand, Kelly-Moore Paint Company, Inc. is a manufacturer and retailer of paint and paint-related products. The five publicly traded comparable companies selected are for the most part manufacturers and/or retailers of paint, architectural coatings and/or related paint products.

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\* In *Estate of Ethyl L. Goodrich* (TCM 1978-278, CCH Dec 35250(M)), the taxpayer's expert rejected certain companies as comparable to a newspaper publishing company that was being valued because these companies (1) were much smaller or larger in terms of revenues, (2) had different growth policies (corporate acquisition instead of internal growth), or (3) had revenues from unrelated business activities. The U.S. Tax Court held that such a selection process "was too selective and excluded companies that in our view are of probative value in the determination of the value of the subject company."

The fair market value of shares of stock in closely held Hallmark Cards, Inc. was an issue in a recently decided case, *Estate of Joyce C. Hall v. Commissioner of the Internal Revenue Service* (USTC; Cohen, J.: Hall Estate v. Commissioner, No. 39319-86 T.C. No. 19, February 14, 1989). The Commissioner's valuation expert used American Greetings Corp. as the only comparable company to Hallmark Cards, Inc. The Court specifically ruled that the IRS's expert had erred in limiting his market comparison to a single comparable. An investment banking firm, the valuation expert for the Estate of Joyce C. Hall, selected six companies for comparison with Hallmark. In addition to American Greetings, the investment firm chose A.T. Cross Company, a leading manufacturer of writing instruments; Avon Products, Inc., the world's largest manufacturer of cosmetics, fragrances and fashion jewelry; The Coca-Cola Company, the largest maker of soft drinks; Lenox, Incorporated, the nation's leading producer of fine china; and Papercraft Corporation, a manufacturer of gift wrap items and household products. The investment firm believed that these companies provided useful comparisons because they produced brand name consumer products, were leading companies in their respective industries, had publicly traded common stock, and had business and financial characteristics similar to Hallmark. The Court accepted the investment firm's selection of comparable publicly traded companies.

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## APPENDIX I

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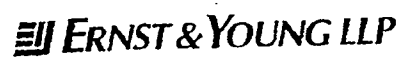
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Suite 200  
Walnut Creek, California 94596

■ Phone: 925 977 2900  
Fax: 925 977 2994

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**Report of Independent Auditors**

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Kelly-Moore Paint Company, Inc.  
Consolidated Balance Sheets  
*(In thousands, except share data)*

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**CONFIDENTIAL**

Kelly-Moore Paint Company, Inc.

Consolidated Statements of Income  
*(In thousands, except share data)*

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KMH 001086

**CONFIDENTIAL**

Kelly-Moore Paint Company, Inc.

Consolidated Statements of Shareholder's Equity  
*(In thousands, except share data)*

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Kelly-Moore Paint Company, Inc.

Consolidated Statements of Cash Flows  
*(In thousands)*

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Kelly-Moore Paint Company, Inc.

Notes to Consolidated Financial Statements

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# **CONFIDENTIAL**

Kelly-Moore Paint Company, Inc.

Notes to Consolidated Financial Statements (continued)

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Kelly-Moore Paint Company, Inc.

Notes to Consolidated Financial Statements (continued)

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Kelly-Moore Paint Company, Inc.

Notes to Consolidated Financial Statements (continued)

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Kelly-Moore Paint Company, Inc.

Notes to Consolidated Financial Statements (continued)

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Kelly-Moore Paint Company, Inc.

Notes to Consolidated Financial Statements (continued)

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Kelly-Moore Paint Company, Inc.

Notes to Consolidated Financial Statements (continued)

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~~Kelly-Moore Paint Company, Inc.~~

Notes to Consolidated Financial Statements (continued)

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Kelly-Moore Paint Company, Inc.

Notes to Consolidated Financial Statements (continued)

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Kelly-Moore Paint Company, Inc.

Notes to Consolidated Financial Statements (continued)

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Kelly-Moore Paint Company, Inc.

Notes to Consolidated Financial Statements (continued)

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Kelly-Moore Paint Company, Inc.

Notes to Consolidated Financial Statements (continued)

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Kelly-Moore Paint Company, Inc.

Notes to Consolidated Financial Statements (continued)

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**APPENDIX II**

KMH 001102

IRELAND ASSOCIATES  
P.O. Box 487  
KENTFIELD, CALIFORNIA 94914  
(415) 464-0424

Qualifications of Ireland Associates

Ireland Associates is a consulting organization specializing in corporate finance and the valuation of closely held companies. The firm was established in 1977.

Robert M. Ireland, founder and principal of the firm, was graduated from Stanford University with an A.B. in Economics in 1965. He received his Masters of Business Administration in Finance from the University of California at Los Angeles in 1967. In addition, Mr. Ireland has been awarded the ASA (Accredited Senior Appraiser) designation in Business Valuation by the American Society of Appraisers.

Mr. Ireland served two years of active duty in the U.S. Army from 1967 to 1969 and attained the rank of Captain before leaving the service. In 1970 Mr. Ireland joined the Bank of America, NT&SA, spending nearly five years as a security analyst with the Bank's Trust Department and with BA Investment Management Corporation, a subsidiary of the Bank. From 1974 to 1978, Mr. Ireland was a Senior Financial Analyst at Memorex Corporation, providing litigation support in the area of corporate finance in connection with Memorex's antitrust litigation in the computer industry. From 1978 to 1979, Mr. Ireland was a consultant to Transamerica Computer Corporation in the areas of corporate finance and capital market theory in connection with Transamerica's antitrust litigation in the computer industry. In 1979, Mr. Ireland joined Kelso & Co., Incorporated. As Vice President and General Partner in the Kelso organization, Mr. Ireland was involved in the valuation of closely held companies, the financial design of Employee Stock Ownership Plans (ESOPs), and the planning, structuring and implementation of leveraged buyouts involving ESOP financing techniques.

In 1983, Mr. Ireland left Kelso & Co. to work independently in the valuation of closely held companies, litigation support activities and financial consulting to corporate clients, many of whom have ESOPs. Since 1983, Ireland Associates has served as an independent contractor to several companies including Menke & Associates, Inc., Private Capital Corporation, San Francisco Financial Corporation, and Sansome Street Appraisers, Inc. in the valuation of closely held companies and their securities for ESOP and other purposes.

In addition to valuing ESOP companies, Mr. Ireland is also involved in the valuation of closely held securities for gift, estate and inheritance tax and estate planning purposes, corporate and marital dissolutions, buy/sell agreements, stock options, mergers and acquisitions, business transfers, and other corporate, personal and litigation related matters.

Mr. Ireland is a member of the Security Analysts of San Francisco, a senior member of the American Society of Appraisers, a fellow of the Association for Investment Management and Research (AIMR), formerly the Financial Analysts Federation, a member of the Valuation Advisory Committee of the ESOP Association of America, a charter member of the Valuation Roundtable of San Francisco, a member of The Institute of Business Appraisers, and has been on the faculty of Hastings College of Law's Center for Trial and Appellate Advocacy.

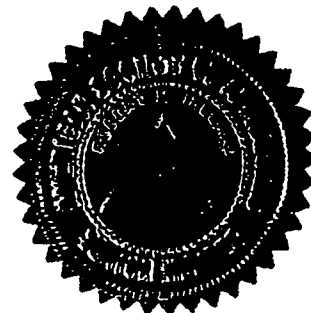
Certification of Robert M. Ireland, ASA  
Under the Uniform Standards of Professional Appraisal Practice

March 27, 2001

I certify that, to the best of my knowledge and belief:

- the statements of fact contained in this report are true and correct.
- the reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, unbiased professional analyses, opinions and conclusions unless otherwise stated.
- I have no present or prospective financial interest in Kelly-Moore Paint Company, Inc., and I have no personal interest or bias with respect to the parties involved.
- my compensation is not contingent on the value determined herein, or any action or event resulting from the analyses, opinions, or conclusions in, or the use of, this report.
- my analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice adopted by the American Society of Appraisers and the Principals of Appraisal Practice and Code of Ethics of the American Society of Appraisers.
- no one has provided significant professional assistance to me in the preparation of this report.

  
Robert M. Ireland, ASA



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# EXHIBIT 54

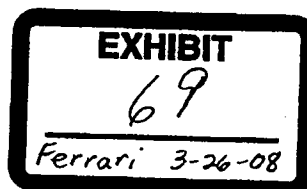


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